



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: February 23, 2005 REPORT NO. 05-044

ATTENTION: Honorable Mayor and City Council
Docket of February 28, 2005

SUBJECT: Subleasing 7,938 Square Feet of Office Space from the San Diego Data Processing Corporation on the Fourth Floor of Civic Center Plaza - 1200 Third Avenue

REFERENCE:

SUMMARY

Issue(s) – Should the City Manager be authorized to sublease 7,938 square feet of office space from the San Diego Data Processing Corporation on the Fourth Floor of the Civic Center Plaza?

Manager's Recommendation – Authorize the City Manager to sublease the office space.

Other Recommendation(s) – None.

Fiscal Impact – 1) The FY 2005 impact will be \$278,760 paid from Fund 100, Department 601. However, the Water Fund (41500) will reimburse \$12,780; the Sewer Fund (41509) will reimburse \$12,780; the Special Districts Administration Fund (70207) will reimburse \$31,950; Fund 10404 will reimburse \$190,000; and the remaining \$31,250 in costs will be transferred from existing operating funds within the City Treasurer's Department to Department 601. This action will not increase net General Fund expenses. 2) The full year FY 2006 impact will be \$148,560 paid from Fund 100, Department 601. Again, however, reimbursements will pay most of those costs: \$21,400 from Water Fund (41500); \$21,400 from Sewer Fund (41509); \$53,500 from Special Districts Administration Fund (70207); and the remaining \$52,260 in costs will be absorbed within existing operating funds of the City Treasurer's Department. This action will not increase net General Fund expenses.

BACKGROUND

The Financing Services Division began its existence in 1997 as a new division of the Financial and Technical Services Business Center. It was located on the 7th Floor of the City Administration Building between two divisions of the City Auditor's Department. The current space on the 7th Floor of CAB is inappropriate for the work done by the Financing Services Division. Division staff works with financial advisors, bond counsel, other City agencies, and City financing teams to issue bonds, conduct financial studies, and establish and monitor Special Districts for infrastructure facilities. There are only seven enclosed offices for a staff of twenty-eight financial professionals. Because most of the staff are housed in cubicles, it is extremely difficult to conduct conversations that need to be private and confidential. Because many of the financial calculations done by staff are intricate and complicated, uninterrupted privacy is necessary to promote concentration and prevent errors. Finally, because of the iterative nature of financing operations, secure record storage is an absolute necessity. The necessary storage area with required security is simply not available on the 7th Floor of CAB.

The Office of the City Auditor and Comptroller has a great need for additional space in City Hall. Due to the increased accounting requirements of GASB 34, recommended changes in accounting practices proposed by KPMG, and the additional work associated with the recently enacted Disclosure Ordinance, the Office of the City Auditor and Comptroller is in immediate need of space to accommodate an adequate level of staffing and files. Staff must have immediate access to thousands of current year documents and prior year reports related to ALL accounts payable disbursements, active payroll and pension records, invoices, and support for the transactions of the financial statements. The 6th Floor of the City Administration Building is overcrowded with staff, files, and boxes and boxes of accounting records. In addition, the Office of the City Auditor and Comptroller must provide work space to the City's external auditor as well as auditors from other governmental agencies such as Cal-Trans and the State of California. This equates to housing six to eight additional staff for approximately seven months of the year at a minimum.

The Office of the City Auditor and Comptroller currently occupies the 6th and 7th Floors in the City Administration Building, with the exception of the Financing Services Division space separating the City Auditor's and Comptroller's staff on the 7th Floor. Approximately ten years ago, the Office of the City Auditor and Comptroller was told that the Financing Services Division would be on the floor temporarily, and the space would be made available to the City Auditor and Comptroller thereafter. The Office of the City Auditor and Comptroller will utilize the office space being vacated by the Financing Services division in City Hall to relocate at least two work units and their associated files and records from the 6th Floor to the 7th Floor. The plan is to utilize the existing space as it is currently configured to minimize expenses. The cost to relocate the affected work units of the Office of the City Auditor and Comptroller is estimated at \$10,000.

With the release of the September 16, 2004 report entitled The City of San Diego, California's Disclosures of Obligation to Fund the San Diego City Employees' Retirement System and Related Disclosure Practices 1996-2004 with Recommended Procedures and Changes to the Municipal Code (known as the Vinson and Elkins Report), requests for additional staffing from

both the City Treasurer and City Auditor and Comptroller Departments will provide an even stronger need for additional office space.

DISCUSSION

The City has been leasing office space in the Civic Center Plaza, located at 1200 Third Avenue since the 1970's. The current Master Lease will expire on July 23, 2014. Currently, City departments occupy approximately 220,000 square feet. These departments include: The Personnel Department on the 1st, 3rd and 15th floors; the City Treasurer's Department on the 1st and 16th floors; Information Technology and Communications Department on the 2nd and 4th floors; the Purchasing Division of the General Services Department on the 2nd floor; Governmental Relations Department on the 2nd floor; the Human Relations Commission on the 9th Floor; the Labor Relations Department on the 13th Floor; Neighborhood Code Compliance Department on the 8th Floor; the Real Estate Assets Department on the 17th Floor; the Risk Management Department on the 9th and 10th Floors; and the City Attorney on the 5th, 7th, 11th, 12th, 15th, and 16th Floors. Due to the increasing expansion, filing and specialty area needs of the City Treasurer's Department, the City has negotiated with the San Diego Data Processing Corporation to take advantage of the space it left vacant on the 4th Floor. The City is proposing to sublease the 7,938 square feet on the Fourth Floor from the San Diego Data Processing Corporation until its lease expires and then add the 7,938 square feet to the City's premises in the Master Lease under the City's basic terms.

ALTERNATIVE(S)

1. Seek alternative locations for space for the City Auditor and Comptroller and City Treasurer Departments. This could further separate the units of those two departments when this action would provide a consolidation.
2. Wait until the San Diego Data Processing Corporation lease expires in 2008 to try to obtain the office space. Should the City opt for this alternative, the San Diego Data Processing Corporation will seek to market the office space in order to optimize its finances. It could result in the space no longer being available when the SDDPC lease expires, since the interim tenant could seek to negotiate an extension directly with building management.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce A. Herring
Deputy City Manager

GRIFFITH/JXB

Attachment(s): 1. Sublease Agreement